

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

Item # 11
I.D. # 12396
RESOLUTION E-4597
October 31, 2013

R E S O L U T I O N

Resolution E-4597. Southern California Edison Company (SCE) seeks approval of Advice Letter (AL) 2856-E, filed to comply with the directives of California Public Utilities Commission (CPUC) Decision (D.)12-11-051, SCE's 2012 General Rate Case (GRC) decision, which required identification of North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection (CIP) costs.

PROPOSED OUTCOME: This Resolution affirms SCE's compliance with the directives of D.12-11-051 regarding identification of the jurisdictional allocation of NERC CIP costs authorized in D.09-03-025, and approves Advice Letter 2856-E.

SAFETY CONSIDERATIONS: Costs incurred in the pursuit of compliance with NERC CIP Reliability Standards carry significant implications for the reliability and security of the bulk power system. However, NERC CIP costs at issue here were previously approved in D.09-03-025 and D.12-11-051. As such, this Resolution entails no incremental safety considerations.

ESTIMATED COST: None.

By AL 2856-E filed on February 27, 2013.

SUMMARY

Southern California Edison Company's (SCE) Advice Letter (AL) 2856-E complies with the directives in Decision (D.)12-11-051, SCE's 2012 General Rate Case (GRC) decision, regarding identification of the jurisdictional allocation of North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection (CIP) costs. Advice Letter (AL) 2856-E is approved.

In D.12-11-051, the CPUC directed SCE to file a Tier 2 AL identifying NERC CIP costs authorized in the 2009 GRC and the 2009-2011 recorded costs for those authorized activities. SCE was also directed to identify whether such costs are CPUC- or Federal Energy Regulatory Commission-jurisdictional and whether these costs were included as embedded historical costs in SCE's 2012 GRC testimony. For the reasons below, SCE AL 2856-E is found to comply with these requirements, and is approved.

BACKGROUND

Originally implemented in 2008, NERC CIP Reliability Standards require certain users, owners, and operators of the Bulk Power System (BPS) to comply with specific requirements to safeguard critical cyber assets.

The vulnerability of electric utility operations to accidental or malicious disruption has been the subject of increasing national concern. The Energy Policy Act of 2005 gave FERC the authority to establish mandatory and enforceable reliability standards for the BPS.¹ After adopting the first 83 mandatory reliability standards in 2007,² FERC issued Order No. 706 adopting eight NERC CIP Reliability Standards, as well as NERC's CIP Implementation Plan providing for a phased-in compliance schedule, in 2008.³ The eight NERC CIP Reliability Standards provide a comprehensive set of requirements to protect the BPS from malicious cyber-attacks through identifying critical cyber assets, establishing plans and protocols to safeguard physical and electronic access, training employees on security matters, and responding to and recovering from incidents.⁴ D.09-03-025 approved several of SCE's funding requests for incremental costs incurred to comply with NERC CIP Reliability Standards.⁵

¹ Energy Policy Act of 2005, Pub. L. No. 109-58, Title XII, Subtitle A, 119 Stat. 594.941 (2005), codified at 16 U.S.C. 824o.

² Mandatory Reliability Standards for the Bulk Power System, 118 FERC P 61,218 (March 16, 2007) ("Order No. 693").

³ Mandatory Reliability Standards for Critical Infrastructure Protection, 122 FERC P 61,040 (January 18, 2008) ("Order No. 706").

⁴ Ibid. at p. 4.

FERC has updated the standards several times since their original adoption in 2008, with the effective dates thereof displayed in Table 1.

Table 1. Effective dates of NERC CIP Reliability Standards Updates^{6,7}

Version	1	2	3	4	5
Effective Date	July 2008	April 2010	October 2010	April 2014	2015

In SCE's 2012 GRC, SCE proposed, and D.12-11-051 approved, several incremental capital projects and operations and maintenance (O&M) expenditures associated with ongoing compliance with NERC CIP Reliability Standards, as well as new spending for company-wide oversight of NERC CIP Compliance.

The continually-evolving requirements for compliance with NERC CIP Reliability Standards entail incremental costs for capital and O&M expenditures within SCE's Power Production Department, Transmission and Distribution business unit, IT Department, and Operations Support business unit, as reflected in a number of proposals included in SCE's 2012 GRC proceeding (A.10-11-015).⁸ Several of these funding requests were approved in D.12-11-051.

Besides these capital and O&M expenditures, SCE included in its 2012 GRC proposal an incremental O&M request of \$2.552 million (\$0.912 million labor, \$1.640 million non-labor) for increased staffing, critical facility identification, and risk assessment activities related to company-wide compliance with NERC CIP mandates, contained within FERC Account 566.280: Compliance, Policy, Contracts, and Billing.⁹ In D.12-11-051, the CPUC approved a total of \$1.749 million (\$0.684 million labor, \$1.065 million non-labor) for NERC CIP Compliance activities.¹⁰

⁵ AL 2856-E at p. 2.

⁶ Ibid.

⁷ Table I-2 in Exhibit SCE-22 in A.10-11-015, Vol. 3, p. 16.

⁸ Table I-1 in Exhibit SCE-22 in A.10-11-015, Vol. 03, p. 13, included herein as Appendix A, or See SCE's Response to Question 03 of Data Request Set DRA-VERBAL-052.

⁹ Exhibit SCE-03 in A.10-11-015, Vol. 03, Part 3, Chap. 1, pp. 9-10.

¹⁰ D.12-11-051, Section 5.16.1.1.

The Division of Ratepayer Advocates (DRA) contested NERC CIP Compliance costs on the basis of their jurisdictional allocation between the CPUC and FERC on a number of occasions during SCE's 2012 GRC proceeding.

In SCE's 2012 GRC proceeding, a point of contention between SCE and DRA centered on the jurisdictional allocation of NERC CIP Compliance costs between the CPUC and FERC. SCE provides cost forecasts in GRC proceedings on a "total company" basis, which includes both FERC-jurisdictional, transmission-related costs and CPUC-jurisdictional costs. The total company costs are separated into FERC- or CPUC-jurisdictional revenue requirements in the RO model based on approved allocation factors. In its testimony to A.10-11-015, SCE proposed to continue its use of cost separation methodology originally adopted by the CPUC in D.04-07-022, SCE's 2003 GRC decision, in which costs that cannot be directly allocated to transmission or distribution functions, such as A&G and G&I costs, are separated into FERC- or CPUC-jurisdictional revenue requirements on the basis of labor cost ratios.¹¹ This methodology was uncontested and readopted by the CPUC in SCE's 2006 and 2009 GRCs.¹² DRA, after reviewing SCE's workpapers in A.10-11-015 supporting the calculation of jurisdictional allocation factors, did not object to using these factors in the 2012 GRC and recommended that the CPUC adopt them.¹³

DRA later raised the issues of appropriate allocation and potential double recovery of NERC CIP Compliance costs in the 2012 GRC proceeding, stating that "SCE admitted that it had embedded NERC CIP compliance costs in rates,"¹⁴ and that "SCE has failed to meet its burden to show that NERC CIP Compliance costs are, and have been, appropriately recorded."¹⁵ DRA argued these two points on the basis of its cross-examination of the two SCE witnesses, and on SCE's treatment of NERC CIP Compliance costs in its testimony vis-à-vis other 100% FERC-jurisdictional spending requests.

¹¹ Exhibit SCE-10 in A.10-11-015, Vol. 01, Chap. IV, pp. 15-17.

¹² Ibid. at pp. 15-16.

¹³ Exhibit DRA-2 in A.10-11-015 at p. 9.

¹⁴ DRA OB at p. 210, footnote 800.

¹⁵ Ibid. at pp. 210-211.

In D.12-11-051, the CPUC directed SCE to file a Tier 2 AL in order to address DRA's concerns regarding the embedded historical costs and jurisdictional allocation of NERC CIP Compliance activities.

The CPUC addressed DRA's concerns about the jurisdictional allocation of NERC CIP Compliance costs in D.12-11-051. Noting that the RO model imposes separation of SCE's "total company" costs into CPUC and FERC jurisdictions based on a methodology approved by the CPUC and FERC, the CPUC dismissed DRA's position on possible double recovery and embedded historical costs of NERC CIP Compliance activities because DRA signed off on the proposed jurisdictional allocation factors in their 2012 GRC testimony.¹⁶ Nevertheless, the CPUC pointed out that it is unknown whether the 2009 RO model removed NERC CIP costs approved in the 2009 GRC from the 2009 GRC revenue requirement, despite SCE's claim that NERC CIP costs are 100% FERC jurisdictional.¹⁷ To resolve this issue, the CPUC issued the following directives regarding NERC CIP costs authorized in SCE's 2009 GRC decision to address the concerns DRA had expressed over their jurisdictional allocation:

"...the [CPUC] finds it reasonable to require SCE to file a Tier 2 AL within 90 days of the date of this decision, which identifies all NERC CIP costs recorded for 2009-2011 that were authorized in the 2009 GRC, the source of rate recovery (i.e., CPUC or [Federal Energy Regulatory Commission (FERC)]), and if FERC jurisdictional, an explanation of whether these costs were included as embedded historical costs in SCE's 2012 GRC testimony."¹⁸

D.12-11-051 was adopted on November 29, 2012. SCE filed AL 2856-E on February 27, 2013.

Table 2 displays the NERC CIP activities authorized in the 2009 GRC identified by SCE in AL 2856-E, whether these costs were capital expenditures or O&M expenses, classified as general and intangible plant (G&I) or administrative and general (A&G) costs, and the recorded costs for years 2009-2011.¹⁹

¹⁶ D.12-11-051 at pp. 701-702; p. 4 of this Resolution.

¹⁷ Ibid. at p. 702.

¹⁸ D.12-11-051 at p. 703.

¹⁹ AL 2856-E at pp. 3-4.

Table 2. NERC CIP Activities Authorized in SCE's 2009 GRC decision (\$000)

Activity	Type	Authorized Costs	Recorded Costs		
		2009	2009	2010	2011
Energy Management System (EMS) ²⁰	Capital - G&I	\$1,300	\$2,513	\$0	\$0
NERC Critical Infrastructure Project ²¹	Capital - G&I	2,880	7,752	4,809	7,242
NERC CIP Information Technology (IT) ²²	O&M - A&G	2,210	2,254	1,975	1,932

In the advice letter, SCE states that, consistent with the adopted methodology, all costs were allocated between CPUC and FERC jurisdictions on the basis of the labor allocator for G&I and A&G expenditures.²³ As such, test year 2009 costs for both capital costs included in rate base and expenses are separated into CPUC and FERC jurisdictions in the Results of Operations (RO) model, so that only the CPUC-jurisdictional portion of the authorized costs would have been included in the GRC revenue requirement reflected in SCE's Base Revenue Requirement Balancing Account.²⁴ Similarly, G&I and A&G costs are allocated between FERC and CPUC in FERC proceedings on the basis of the labor allocator.²⁵

Finally, SCE describes the treatment of NERC CIP activities authorized in the 2009 GRC in embedded historical costs in the 2012 GRC. The EMS project was included as a unique project and closed to plant in 2009, so no new costs were included in the 2012 GRC. The NERC Critical Infrastructure Project was part of a series of projects included in the 2012 GRC as a compliance mandate. Forecast expenditures for 2012 were based on new compliance requirements and new

²⁰ D.09-03-025 at pp. 224-225.

²¹ Ibid. at p. 234.

²² Ibid. at pp. 124-125.

²³ Exhibit SCE-11 in A.07-11-011, Vol. 1, pp. 15-18.

²⁴ The RO model is used to generate the test year revenue requirement in GRCs based on forecasts of capital expenditures and expenses approved by the CPUC. The Base Revenue Requirement Balancing Account is a mechanism that ensures that SCE only collects the revenue requirement approved by the CPUC in the GRC.

²⁵ AL 2856-E at pp. 4-5.

projects; as such, only remaining rate base-related costs (e.g., undepreciated plant and deferred taxes) from projects authorized in the 2009 GRC were included in the 2012 GRC. Last, NERC CIP IT-related expenses authorized in the 2009 GRC were for governance activities. These activities were included in the 2012 SCE GRC in the IT areas called Technology and Risk Management and Business and Operations Management, and included the 2009 costs shown in Table 1. Test year forecasts for the Technology and Risk Management functions were based on incremental costs to meet requirements that were identified after 2009. Test year forecasts for the Business and Operations Management were based on a 3-year average of recorded labor costs, and 2009 recorded costs for non-labor.²⁶

We find that SCE met the requirements of the 2012 GRC Decision by identifying: the NERC CIP activities authorized in the 2009 GRC, the 2009-2011 recorded costs for these activities, their allocation between CPUC and FERC jurisdictions, and their treatment in embedded historical costs in the 2012 GRC. Thus, AL 2856-E should be approved.

NOTICE

Notice of AL 2856-E was made by publication in the CPUC's Daily Calendar. In accordance with Section 4 of General Order (GO) 96-B and with D.12-11-051, SCE served copies of this AL to the GO-96-B and D.12-11-051 service lists attached to AL 2856-E.

PROTESTS

DRA protested AL 2856-E, arguing that SCE's showing in AL 2856-E failed to comply with the directives in D.12-11-051 regarding NERC CIP costs.

DRA submitted a protest to AL 2856-E on March 25, 2013.²⁷ DRA contends that "SCE's AL 2856-E . . . has again failed to address the inconsistencies and contradictions in SCE's testimony," and that "the 'showing' made by SCE in

²⁶ Ibid. at pp. 5-6.

²⁷ DRA's protest was submitted six days after the 20 day protest period on AL 2856-E expired. DRA demonstrated that a communication breakdown prevented DRA from receiving AL 2856-E in time to submit the protest within the normal 20-day protest period set forth in G.O. 96-B. We consider DRA's protest as it has shown good cause for the timing of its submission and no party has been harmed by the six-day delay.

AL 2856-E fails to demonstrate that SCE has not and is not double recovering NERC CIP costs through FERC and CPUC jurisdictional rates.”²⁸ DRA frames its main arguments in its protest around the three CPUC directives in D.12-11-051 regarding 2009 NERC CIP activities:

1. DRA states that “SCE seems to have complied with the requirement of providing 2009 Authorized NERC CIP Costs Recorded for 2009-2011;” however, DRA claims that “there is no evidence that any of the costs associated with these projects [identified in AL 2856-E] should have been recovered through retail rates,” given that “in SCE’s 2012 GRC, DRA discovered that the NERC CIP compliance costs at issue were 100% recoverable through transmission, not retail rates.”²⁹
2. DRA claims that SCE’s explanation that NERC CIP project costs “were allocated between CPUC and FERC jurisdictions on the basis of the labor allocator” does not demonstrate that authorized costs have been appropriately split between jurisdictions, and that nothing in AL 2856-E shows that SCE’s model has dealt with NERC CIP costs appropriately.³⁰
3. DRA argues that SCE has not presented sufficient evidence to support its claims regarding the treatment of 2009-authorized NERC CIP costs in historical costs used in the 2012 GRC. For example, according to DRA, SCE’s statement that the “EMS project adopted in the 2009 GRC closed to plant in 2009, and was included as a unique project,” and that “[n]o new costs were included in the 2012 GRC” does not amount to evidence that EMS costs were removed from the historical data used to forecast 2012 needs.³¹

DRA urges the CPUC to reject AL 2856-E and conduct an audit of SCE’s books to determine whether the NERC CIP costs at issue have been recorded appropriately.³²

²⁸ DRA protest at p. 2.

²⁹ Ibid. at p. 2.

³⁰ Ibid. at pp. 3-4.

³¹ Ibid. at pp. 4-5.

³² Ibid. at p. 5.

SCE replied to DRA's protest of AL 2856-E. In its reply, SCE contests DRA's claims that AL 2856-E does not comply with D.12-11-051, and urges CPUC approval of AL 2856-E.

SCE submitted a reply to DRA's Protest of AL 2856-E on April 2, 2013. SCE argues that DRA's protest wrongly claims that AL 2856-E failed to comply with the three requirements of D.12-11-051 regarding NERC CIP costs.³³ After noting that SCE's response to the first directive to identify NERC CIP costs authorized in the 2009 GRC was deemed satisfactory by DRA, SCE refutes DRA's contention that SCE failed to comply with the other two directives dealing with the jurisdictional allocation and historical cost treatment of NERC CIP costs authorized in the 2009 GRC. To the former, SCE reiterates that SCE properly identified both capital software projects as G&I and the IT O&M expenses as A&G, which are allocated between CPUC and FERC jurisdictional revenue requirements on the basis of the labor allocator methodology adopted in D.09-03-025.³⁴ To the latter, SCE states that AL 2856-E went beyond the requirement of D.11-12-051 by providing explanations and support as to how the recorded costs relate to test year forecasts, and then reiterates its showing in AL 2856-E as to how the three identified projects were included in historical data.³⁵

SCE attached a number of workpapers to its reply that describe the 2009 proposals and the 2012 historical cost treatment of the three NERC CIP projects identified in AL 2856.

In concluding its reply, SCE impels the CPUC to deny DRA's proposal to reject the AL and conduct an audit, noting that SCE will soon submit its Notice of Intent for its 2015 GRC, thus giving DRA an opportunity to audit its books for five years of data (2008-2012) covering the years being disputed by DRA.³⁶

³³ SCE reply at p. 2.

³⁴ Ibid.

³⁵ Ibid. at pp. 3-4.

³⁶ SCE reply at p. 5.

DISCUSSION

SCE's showing in AL 2856-E, along with the evidence provided in its reply to DRA's protest, demonstrates compliance with the requirements of D.12-11-051.

D.12-11-051 directed SCE to file a Tier 2 advice letter which identifies: 1) all NERC CIP costs recorded for 2009-2011 that were authorized in the 2009 GRC; 2) the source of rate recovery (i.e., CPUC or FERC), and 3) if FERC jurisdictional, an explanation of whether these costs were included as embedded historical costs in SCE's 2012 GRC testimony. As described above, SCE responds to the first directive in AL 2856-E by listing two capitalized software projects, the EMS and the NERC Critical Infrastructure Project, and NERC CIP IT Department O&M expenses. While DRA claims there is no evidence that these costs should have been recovered in retail rates, it states that SCE seems to have complied with this directive.

SCE responds to the second directive by stating that both the capitalized software projects, classified as G&I costs, and the IT O&M expenses, classified as A&G costs, are separated into CPUC- or FERC-jurisdictional revenue requirements using a labor cost allocation methodology that was originally adopted in D.04-07-022 and reapproved in D.09-03-025. DRA claims in its protest that SCE fails to provide evidence to back up its assertions.

Finally, SCE responds to the third directive by stating that the EMS project was closed to plant in 2009, so no new costs were included in the 2012 GRC; that only the remaining rate base-related costs for NERC CIP projects authorized in the 2009 GRC were included in the 2012 GRC; and that 2012 Test Year expense forecasts for NERC CIP IT governance and compliance activities in the Technology and Risk Management area were based on incremental costs to meet requirements identified after 2009, while those in the Business Operations area were based on a 3-year average of recorded labor costs and 2009 recorded costs for non-labor. DRA argues in its protest that SCE does not present sufficient evidence to support its claims regarding the treatment of 2009-authorized NERC CIP costs reflected in 2012 GRC historical costs.

SCE counters DRA's charges that it did not provide sufficient evidence in responding to the CPUC's second and third directives by including a number of excerpts from its 2009 and 2012 GRC testimony in the workpapers attached to its reply to DRA's protest. These excerpts are cited in an annotated version of

AL 2856-E provided with SCE's reply. The attached workpapers include the 2009 GRC proposals for the three NERC CIP projects identified in AL 2856-E,³⁷ the 2009-2011 recorded costs for these projects,³⁸ the proposed method for allocating costs between CPUC and FERC jurisdictions and RO model treatment of jurisdictional allocation factors,³⁹ and 2012 GRC testimony describing incremental NERC Critical Infrastructure Project capitalized software and NERC CIP IT expense proposals, which cover the treatment of these 2009-authorized projects in 2012 embedded historical costs.⁴⁰ These workpapers constitute the sources of SCE's original showing in AL 2856-E.

In the 2009 GRC decision (D.09-03-025), the CPUC approved several of SCE's funding requests for incremental costs incurred to comply with NERC CIP Reliability Standards. DRA's protest attempts to relitigate issues that were before the CPUC in the 2012 GRC decision and are outside the scope of the directives of D.12-11-051.

In the 2009 GRC decision (D.09-03-025), the CPUC approved several of SCE's funding requests for incremental costs incurred to comply with NERC CIP Reliability Standards. D.12-11-051 directed SCE to file a Tier 2 advice letter which identifies: 1) all NERC CIP costs recorded for 2009-2011 that were authorized in the 2009 GRC; 2) the source of rate recovery (i.e., CPUC or FERC), and 3) if FERC jurisdictional, an explanation of whether these costs were included as embedded historical costs in SCE's 2012 GRC testimony. SCE complied with the directives laid out in D.12-11-051. DRA's protest attempts to relitigate issues that were before the CPUC in the 2012 GRC decision and are outside the scope of the directives of D.12-11-051. As such, AL 2856-E is approved, and DRA's protest of AL 2856-E is denied.

In its protest, DRA expressed a concern that SCE's assertion that NERC CIP project costs "were allocated between CPUC and FERC jurisdictions on the basis of the labor allocator" does not demonstrate that authorized costs have

³⁷ Attached Workpapers to SCE's reply at Tabs 1, 2, 4, 6, and 7.

³⁸ Ibid. at Tabs 3, 5, and 8.

³⁹ Ibid. at Tabs 9 and 13.

⁴⁰ Ibid. at Tabs 10, 11, and 12.

been appropriately split between jurisdictions, and that nothing in AL 2856-E shows that SCE's model has dealt with NERC CIP costs appropriately. DRA is encouraged to review SCE's Final 2012 GRC Decision Results of Operations model during their 2015 SCE GRC audit to examine whether SCE's above assertion was based on auditable data. SCE is required to cooperate with DRA on this inquiry despite the fact that it concerns an issue from D.12-11-051.

According to DRA, SCE's statement that NERC CIP project costs "were allocated between CPUC and FERC jurisdictions on the basis of the labor allocator" does not demonstrate that authorized costs have been appropriately split between jurisdictions, and that nothing in AL 2856-E shows that SCE's model has dealt with NERC CIP costs appropriately.⁴¹ SCE has submitted its Notice of Intent for its 2015 GRC which will provide DRA an opportunity to audit SCE's books to verify five years of data (2008-2012) covering the years being disputed by DRA. DRA is encouraged to review SCE's Final 2012 GRC Decision Results of Operations model during their 2015 SCE GRC audit to examine whether SCE's statement was based on auditable data. We direct SCE to cooperate with any such DRA inquiry during its 2015 GRC audit.

COMMENTS

Public Utilities Code Section 311(g)(1) generally requires resolutions to be served on all parties and subject to at least 30 days public review and comment prior to a vote of the CPUC. Accordingly, this Draft Resolution was served on SCE and DRA, and was issued for public review and comment no later than 30 days prior to a vote of the CPUC. SCE submitted comments on October 7, 2013, which were used to make revisions to the language of the Draft Resolution.

FINDINGS AND CONCLUSIONS

1. NERC CIP Reliability Standards, adopted in 2008, provide a comprehensive set of requirements to protect the Bulk Power System from malicious cyber-attacks.
2. D.12-11-051, SCE's 2012 GRC decision, approved a number of incremental capital and O&M spending proposals aimed at compliance with the latest version of NERC CIP Reliability Standards. Among these proposals was an

⁴¹ DRA protest at pp. 3-4.

incremental O&M request of \$2.552 million (\$0.912 million labor, \$1.640 million non-labor) for company-wide oversight of NERC CIP Compliance activities, contained within FERC Account 566.280, of which the CPUC approved \$1.749 million (\$0.684 million labor, \$1.065 million non-labor).

3. SCE provides cost forecasts in GRC proceedings on a “total company” basis, which means that the GRC request includes both CPUC- and FERC-jurisdictional costs, which are then separated into their respective revenue requirements in the RO model by approved jurisdictional allocation factors.
4. In its 2012 GRC testimony, SCE proposed to continue, and DRA did not object to, its use of cost separation methodology originally adopted by the CPUC in D.04-07-022, SCE’s 2003 GRC decision, in which costs that cannot be directly allocated to transmission or distribution functions, such as A&G or G&I costs, are separated into CPUC- or FERC-jurisdictional revenue requirements on the basis of labor cost ratios.
5. In D.12-11-015, the CPUC directed SCE to file a Tier 2 AL identifying 2009-2011 recorded NERC CIP costs authorized in the 2009 GRC, the source of rate recovery for these costs between CPUC and FERC jurisdictions, and, if FERC-jurisdictional, an explanation of whether these costs were included as embedded historical costs in SCE’s 2012 GRC testimony.
6. SCE filed AL 2856-E on February 27, 2013. In response to the CPUC’s directives in D.12-11-051, SCE:
 - A. Identifies the EMS project, NERC Critical Infrastructure Project, and NERC CIP IT expenses as the NERC CIP activities authorized in the 2009 GRC, listed the 2009 authorized and 2009-2011 recorded costs for these activities, and classified them as A&G or G&I (see Table 1).
 - B. States that, consistent with the adopted methodology, all costs were allocated between CPUC- and FERC- jurisdictional revenue requirements on the basis of the labor allocator for A&G and G&I expenditures. As such, test year 2009 costs are separated into CPUC and FERC jurisdictions in the RO model, so that only CPUC-jurisdictional costs are included in the GRC revenue requirement.
 - C. Describes the treatment of 2009-authorized NERC CIP activities in embedded historical costs used in the 2012 GRC. No new costs for the EMS project were included in the 2012 GRC. The 2012 request entailed a series of new NERC Critical Infrastructure Projects, and the only

embedded costs from projects authorized in the 2009 GRC are remaining rate base costs. Finally, test year 2012 forecasts for different functions of NERC CIP IT expenses were based on incremental costs to meet requirements identified after 2009, 3-year average of recorded labor costs, and 2009 recorded costs for non-labor costs. NERC CIP IT expenses authorized in the 2009 GRC were for governance activities

7. DRA submitted a protest to AL 2856-E on March 25, 2013, arguing that AL 2856-E fails to demonstrate that the NERC CIP projects identified therein should have been recovered in retail rates; that SCE's explanation that NERC CIP project costs "were allocated between the CPUC and FERC jurisdictions on the basis of the labor allocator" does not demonstrate that authorized costs have been properly split; and that SCE does not present sufficient evidence to support its claims regarding the treatment of 2009-authorized NERC CIP costs in historical costs used in the 2012 GRC.
8. SCE submitted a reply to DRA's protest of AL 2856-E on April 2, 2013, arguing that DRA's protest wrongly claims that AL 2856-E failed to comply with the three directives of D.12-11-051 regarding NERC CIP costs.
9. SCE's showing in AL 2856-E, along with the evidence provided in its reply to DRA's protest, demonstrates compliance with the requirements of D.12-11-051.
10. SCE's AL 2856-E should be approved, and DRA's protest of AL 2856-E should be denied.

THEREFORE IT IS ORDERED THAT:

1. SCE's AL 2856-E is approved effective March 29, 2013. As such, DRA's Protest of AL 2856-E is denied.
2. If DRA requests to examine the Final 2012 GRC Decision Results of Operations model during its 2015 SCE GRC audit to determine whether SCE's assertion that NERC CIP project costs "were allocated between CPUC and FERC jurisdictions on the basis of the labor allocator" was based on auditable data, SCE is directed to cooperate with DRA to enable that determination.

October 31, 2013

This Resolution is effective today.

I certify that the foregoing Resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on October 31, 2013; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

APPENDIX A

Table I-1
SCE and DRA Summary of Capital and Incremental O&M NERC CIP Related Costs and References
(Total Company)

Description (Project Name) 1/	Capital Expenditures 2010 - 2014				O&M - 2012 Incremental Increase over 2009 Recorded			
	(Nominal \$000)				(Constant 2009 \$000)			
	SCE Proposed	DRA Proposed	SCE > DRA Difference		SCE Proposed	DRA Proposed	SCE > DRA Difference	SCE Rebuttal Exh. No./Witness
PPD - Hydro	-	-	-		\$1,630	\$1,630	\$0	SCE-17, Vol. 7, Part 1/Kurpakus
PPD - Mountainview	-	-	-		\$367	\$60	\$307	SCE-17, Vol. 8/ Phelan
PPD - Peakers	-	-	-		\$702	\$0	\$702	SCE-17, Vol. 9/Phelan
ITDBU - Engineering	-	-	-		\$1,177	\$0	\$1,177	SCE-18, Vol. 3, Part 5/Varnell
ITDBU - Grid Operations	-	-	-		\$528	\$0	\$528	SCE-18, Vol. 4, Part 5/Martinez
ITDBU - Substation Construction and Maintenance	-	-	-		\$712	\$0	\$712	SCE-18, Vol. 4, Part 7 /Trainor
ITDBU - Training (Seat-Time)	-	-	-		\$427	\$0	\$427	SCE-18, Vol. 5, Part 2/Anillon
ITDBU - Training (Delivery)	-	-	-		\$200	\$0	\$200	SCE-18, Vol. 5, Part 2/Anillon
ITDBU Reliability Standards Compliance - Labor	-	-	-		\$912	\$0	\$912	SCE-18, Vol. 5, Part 3/Reeves
ITDBU Reliability Standards Compliance - Non-Labor	-	-	-		\$1,640	\$0	\$1,640	SCE-18, Vol. 5, Part 3/Reeves
ITDBU Hardware and Software	\$7,004	\$7,004	\$0		-	-	-	-
IT Hardware and Software Infrastructure Improvements 2, 3/	\$39,778	\$25,511	\$14,267		-	-	-	SCE-20, Vol. 2/Tessema
IT O&M including software licenses					\$3,799	\$0	\$3,799	SCE-20, Vol. 2/Tessema
OSBU - Substation Facilities - 120 sites 2/	\$34,620	\$1,500	\$33,120		-	-	-	SCE-24, Vol. 2/Monroe
OSBU - Substation Facilities Ongoing Maintenance	-	-	-		\$4,041	\$0	\$4,041	SCE-24, Vol. 1/Monroe
Total	\$81,402	\$34,015	\$47,387		\$16,135	\$1,690	\$14,445	

1/ A&G-related costs associated with NERC CIP requirements are seen as a contributing factor to costs and are not included in this table.

2/ DRA proposed capital expenditures for 2013 and 2014 are assumed to be zero, consistent with its Post-Test Year Proposal in Exh. DRA-21.

3/ DRA proposed three adjustments to SCE's capital request, as follows: (1) use 2010 recorded amount for 2010, (2) use a five-year average recorded capital spend as projection for 2011 and 2012, and (3) average 2011 and 2012 capital spend into 2011 to take advantage of the Tax Relief Act of 2010. The DRA proposed NERC/CIP amount shown was derived by SCE based on this methodology.